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**Impact of regulatory
changes on
products...now and in
future!**



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Regulatory pressures from all sides....

- Tax
- Fee disclosure and consumer protection
- Capital (LICAT)
- Genetic testing
- Discrimination restrictions
- Privacy
- Financial reporting (IFRS 17)

Session Structure

- First half:
 - Short presentations on key regulatory pressures, expected product impacts and lessons from abroad
- Second half:
 - Moderated Q&A... **so start thinking of questions to ask the panel!**

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Rohit Thomas

VP & Chief Pricing Actuary, BMO
Insurance

Summary of Impacts

- Movement towards **simple, streamlined, consumer friendly** product offering
- Level Cost of Insurance will see the biggest impacts going forward
- Regulation changes now and in the future will change distribution, product choices, and sales process
- Lastly, Critical Illness sales will double in 2017!

Policyholder Tax Changes

- Bring consistency to policyholder tax rules, and further refinements
- More complicated tax rules, less transparent, short implementation period
- Industry hit reset button - streamlined products and product offering
- Level Cost of Insurance products most impacted
- UL sales will shift towards funded sales & quick pay strategies

Fee Disclosure

- Mutual Funds industry now discloses compensation
- Compensation disclosure is coming to Insurance industry, starting with Segregated Funds
- Key learnings from Mutual Funds distribution will filter to Insurance industry
- Alignment of Insurance company and advisor interests
- Compensation disclosure **will not** impact the role of the advisor, but will modify the sales process

Consumer Protection

- Principle that focuses on customer outcomes and the interest of the customers
- Further simplification to ensure right choice for customer
- Will impact:
 - Distribution
 - Sales concepts
 - Product selection



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Alex Lucas

SVP and Head of Manulife Insurance

Regulation & Our Future

LICAT



Genetics Risk



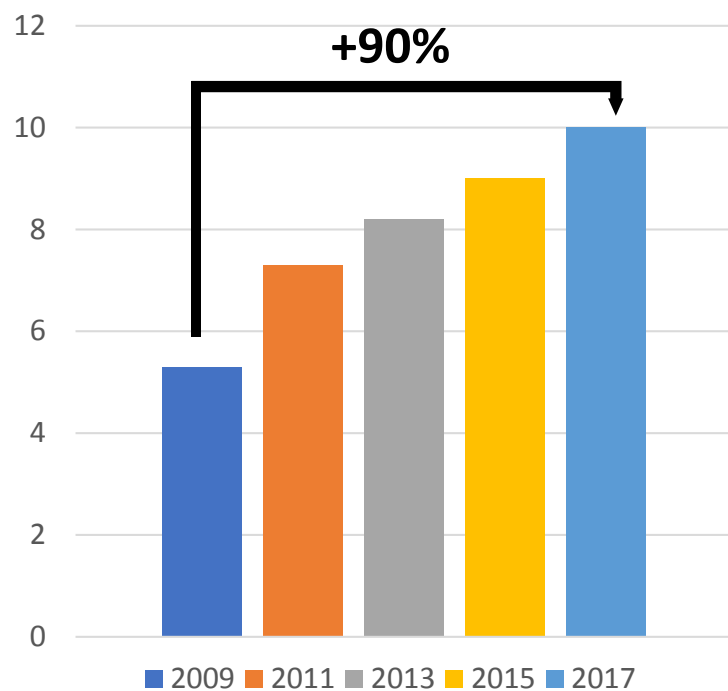
LICAT

- ✗ Equity & alternative assets
- ✗ Mismatched cash flows
- ✓ Participating & adjustable products



My Take on LICAT

Sample UL COI Trend
Cost per thousand, MNS Age 40



Solutions

- Getting more expensive
- Need to be matched or pass through risk

Households

- Using insurance less
- Unprecedented level of debt

Term &
Adjustable
Products

Genetics Regulation

Bill S-201: An Act to prohibit and prevent genetic discrimination

- Prohibits any use of Genetic Test results by insurers
- House of Commons passed bill on March 8th; awaiting Royal Assent to come into force
- May be brought to Supreme Court of Canada for being unconstitutional

CLHIA Industry Code: Genetic testing information for insurance underwriting

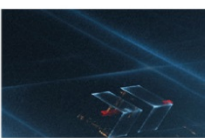
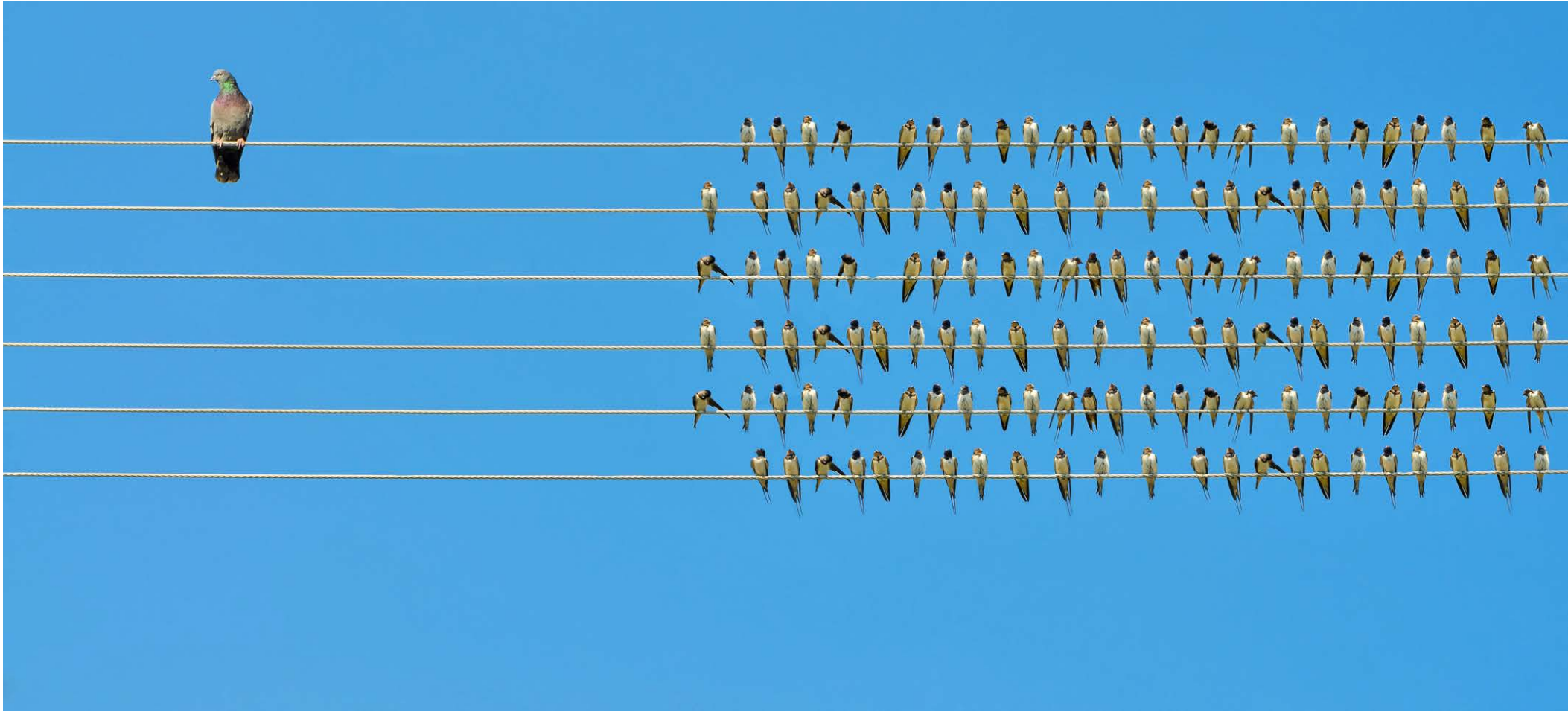
- Notwithstanding Bill S-201, an industry code will come into effect
- Prohibits use of Genetic Test results for life insurance coverage of \$250,000 or less
- Effective January 1, 2018

My Take on Genetics Regulation

- **Short-term: Anti-selection risk**
Mitigate through underwriting changes and monitoring
- **Long-term: Undefinable risk**
Mitigate through adjustable products and severity-based benefit payouts



The BIG Issue



What we can learn from beyond North America

Brian Louth

SVP Business Development and CMO

RGA Canada

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Lessons from beyond North America

- Overarching concerns by “regulators”

“Protect the consumer”

- Consumers must be treated equitably
- Consumers must be sold appropriate solutions
- Companies need to be around to deliver on promises to customers

Environment	“Regulators”	Industry	Reinsurers
<p>Treat consumers equitably</p>	<p>Social equity in risk selection</p> <ul style="list-style-type: none"> • Gender neutral premiums • Restrict use of genetic information 	<p>Revise underwriting and risk selection</p> <p>Change products, change premium structures</p> <p>Predictive analytics using different data sources</p>	<p>Develop and support new risk selection criteria.</p> <p>Predictive analytics</p>

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Treat consumers equitably	Social equity in risk selection <ul style="list-style-type: none"> • Gender neutral premiums • Restrict use of genetic information 	Revise underwriting and risk selection Change products, change premium structures Predictive analytics using different data sources	Develop and support new risk selection criteria. Predictive analytics
Sell consumers appropriate solutions	Distribution must act in best interest of consumer <ul style="list-style-type: none"> • Ban imbedded commissions 	New distribution models Growth of direct channels New entrants Deliver education and advice to consumers	Develop and support integrated risk selection and product designs

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Sell consumers appropriate solutions	Distribution must act in best interest of consumer <ul style="list-style-type: none"> • Ban imbedded commissions 	New distribution models Growth of direct channels New entrants Deliver education and advice to consumers	Develop and support integrated risk selection and product designs
Companies must be around to deliver on promises to consumers	Increased oversight and stronger capital positions <ul style="list-style-type: none"> • Solvency II 	Optimize capital Modify products with shorter guarantees Shift long term risks to consumer	Company specific solutions to optimize capital. Develop efficient structures to support longer guarantees



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Q&A Session